

# FDIC State Profile

Spring 2006

## New Mexico

**Employment revisions reveal a more robust New Mexico economy.**

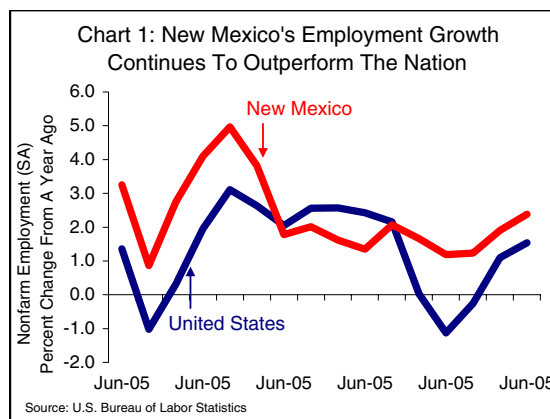
- Employment revisions made by the U.S. Bureau of Labor Statistics pegged New Mexico employment growth in 2005 at 2.38 percent for a gain of 18,800 net jobs. The new job numbers were significantly higher than previously estimated depicting a much stronger New Mexico economy. New Mexico employment growth remains above the nation (see Chart 1).
- Double-digit growth in the mining industry, combined with growth in other goods-producing industries, is keeping New Mexico's employment growth above the national average. However, service-producing industries, such as professional and business, health and education and leisure and hospitality, while still positive, are not matching national rates.<sup>1</sup>

**New Mexico is currently struggling with drought, and projections indicate the severity could increase.**

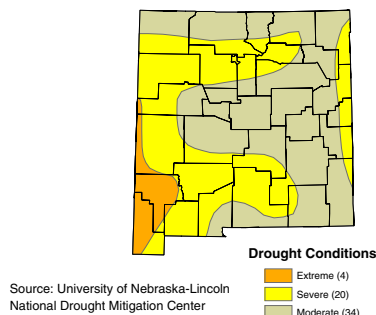
- Virtually the entire state of New Mexico is suffering from recent drought conditions categorized as "moderate" to "extreme" (see Map 1).
- A recent New Mexico climate-change report foresees ongoing problems with water availability. Less water for cities and towns, agriculture, and other needs could cause a slowing in the New Mexico economy if water use must be curtailed.<sup>2</sup>

**Affluent retirees and baby boomers are flocking to New Mexico.**

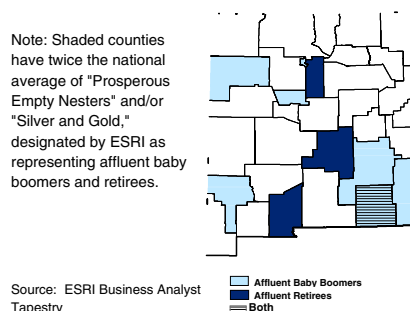
- Favorable amenities and a lower cost of living are attracting affluent retirees and baby boomers to New Mexico (see Map 2).
- The growing population of aging baby-boomers and retirees is much coveted by both communities and businesses because these groups often have significant earnings capacity and substantial net worth.<sup>3</sup>



**Map 1: Severe Drought Conditions Could Restrain New Mexico's Long-Term Growth**



**Map 2: New Mexico Is a Prime Destination for Affluent Retirees**



<sup>1</sup>Moody's Economy.com New Mexico Précis Report dated December 2005.

<sup>2</sup>Waltermeyer, S.D. and R.L. Gold. "National Water Summary: New Mexico Floods and Droughts" U.S. Geological Survey. WSP 3675.

<sup>3</sup>ESRI Business Analyst Tapestry Data.

- The profound impact that these two groups are having on state labor market trends, housing markets, consumption expenditure patterns (e.g. healthcare, housing and travel), and demand for financial services will likely increase over time. These households are likely to demand products such as mortgages, annuities, investment management, trust, and estate planning services in the years ahead.

### **The financial performance of New Mexico's insured institutions remains strong.**

- Banks and thrifts headquartered in New Mexico posted a median return on assets (ROA) of 1.32 percent for the 12 months ending December 31, 2005, the highest level in the past eight years and higher than the national average of 1.04 percent. The fourth quarter was especially strong, with New Mexico institutions posting a 1.83 pre-tax ROA, the fourth highest in the nation.
- Improving credit quality has allowed provision expenses to remain at decade-low levels, but there is little room for further declines in this expense category.
- Almost three out of four insured institutions in New Mexico hold less than \$250 million in assets. The earnings of these institutions are driven in large part by the net interest margin. Many of these community financial institutions have benefited from the recent increase in short-term interest rates.
- However, the yield curve is flattening and is at its lowest level since first quarter 2001. Historically, this condition has created challenges for bank earnings and implies increasing pressure on margins going forward.
- The median cost of funds for New Mexico insured institutions was 1.82 percent in fourth quarter 2005, the fifth lowest of any state. New Mexico institutions tend to hold higher levels of noninterest bearing deposits. Additionally, more than two thirds of the state's insured institutions are headquartered in rural areas that often have fewer market competitors and provide bankers with greater influence in determining interest rates for both loan and deposit products.

### **An expanding New Mexico real estate market is prompting strong demand for construction lending.**

- Driven by solid employment gains and favorable financing rates, New Mexico commercial and residential markets remain vibrant, contributing to increases in construction lending concentrations. Additionally, as the 65 years and older segment continues to grow (currently seventh fastest rate in the country) demand for healthcare, leisure and

hospitality, and housing should remain strong.<sup>4</sup> As of third quarter 2005, construction and development loans at the state's insured institutions represented 16 percent of total loans, more than twice the ratio for all FDIC-insured institutions.

- Rapid commercial real estate (CRE) growth has also led New Mexico insured institutions to a record level for CRE lending concentrations. CRE loans currently make up 29 percent of total loans for New Mexico institutions, more than twice the national rate. At present, performance of CRE loans at the state's insured institutions remains very good, with reported past-due and charge-off rates among the lowest in a decade and below the national averages.

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<sup>4</sup>According to Moody's Economy.com, Inc. New Mexico Précis report.

## New Mexico at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.6%	2.6%	2.3%	1.9%	1.2%
Manufacturing (4%)	0.5%	-0.2%	-0.3%	-1.4%	-5.0%
Other (non-manufacturing) Goods-Producing (9%)	9.4%	9.2%	8.0%	6.6%	2.6%
Private Service-Producing (62%)	2.1%	2.3%	1.9%	1.7%	1.2%
Government (25%)	1.7%	1.7%	1.7%	1.7%	2.2%
Unemployment Rate (% of labor force)	5.0	5.2	5.6	5.7	5.9
<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	7.0%	6.6%	6.4%	4.0%
Single-Family Home Permits	8.4%	7.7%	-1.8%	9.9%	14.1%
Multifamily Building Permits	12.3%	217.1%	135.8%	-27.2%	-10.2%
Existing Home Sales	9.7%	6.9%	29.8%	16.9%	11.3%
Home Price Index	15.5%	13.1%	8.3%	7.6%	5.1%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	7.28	6.25	4.34	4.63	4.79

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	56	56	58	58	60
Total Assets (in millions)	16,732	16,515	15,822	15,822	20,529
New Institutions (# < 3 years)	0	0	0	0	1
Subchapter S Institutions	25	25	24	24	24
<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.24	1.33	1.23	1.23	1.58
ALLL/Total Loans (median %)	1.29	1.33	1.37	1.37	1.32
ALLL/Noncurrent Loans (median multiple)	2.71	2.46	2.03	2.03	1.64
Net Loan Losses / Total Loans (median %)	0.16	0.07	0.16	0.18	0.14
<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	8.87	8.76	8.53	8.53	8.47
Return on Assets (median %)	1.30	1.33	1.15	1.09	1.14
Pretax Return on Assets (median %)	1.83	1.84	1.56	1.50	1.52
Net Interest Margin (median %)	4.98	4.95	4.72	4.65	4.50
Yield on Earning Assets (median %)	6.61	6.43	5.87	5.75	6.07
Cost of Funding Earning Assets (median %)	1.82	1.67	1.32	1.23	1.39
Provisions to Avg. Assets (median %)	0.08	0.08	0.11	0.13	0.14
Noninterest Income to Avg. Assets (median %)	0.80	0.79	0.76	0.83	0.90
Overhead to Avg. Assets (median %)	3.48	3.36	3.24	3.24	3.46
<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	61.0	61.3	59.1	59.1	58.5
Noncore Funding to Assets (median %)	17.7	19.8	20.0	20.0	20.0
Long-term Assets to Assets (median %, call filers)	16.2	18.1	19.6	19.6	18.9
Brokered Deposits (number of institutions)	7	7	7	7	9
Brokered Deposits to Assets (median % for those above)	4.4	3.2	3.1	3.1	1.3
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	89.3	88.4	108.1	108.1	110.8
Commercial Real Estate	258.9	272.0	244.1	244.1	231.4
Construction & Development	51.1	53.4	49.5	49.5	43.2
Multifamily Residential Real Estate	7.1	7.4	6.8	6.8	4.5
Nonresidential Real Estate	153.2	155.2	156.0	156.0	160.3
Residential Real Estate	130.9	132.5	136.4	136.4	135.0
Consumer	30.6	32.0	40.1	40.1	48.2
Agriculture	14.2	15.3	15.0	15.0	18.1

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Albuquerque, NM	24	8,645	< \$250 million	40 (71.4%)
Santa Fe, NM	11	1,870	\$250 million to \$1 billion	11 (19.6%)
Las Cruces, NM	15	1,310	\$1 billion to \$10 billion	5 (8.9%)
Farmington, NM	7	971	> \$10 billion	0 (0%)